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SUBJECT: GREEK PM CONFRONTS DEFICIT: BIG ON COMMITMENT, SHY ON
DETAILS

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[1](#)E. ATHENS 176; F. 08 ATHENS 1655; G. 08 ATHENS 1515

[1](#)1. (SBU) In a nationally-televised speech on December 14, Greece's Prime Minister of just two months, George Papandreou, walked a tightrope between maintaining public support and appeasing impatient European partners and international markets as he set out to bridge a credibility gap and potentially redefine the relationship between Greek citizen and government. Under intense pressure to rein in Greece's soaring budget deficit, the Prime Minister chose as his audience key stakeholders necessary to the reform process: union leaders and business groups. Evoking Greece's firmly entrenched place in European structures, he chose as his venue Zappeion Hall, the building which witnessed Greece's accession to the European Economic Community in 1979. It was a speech anticipated and feared by many - laborers and employers, public and private sectors, Greeks and other Europeans, socialists and capitalists alike. It was a speech that could define a new course for a country that finds itself embroiled in issues of credibility and solvency. In the end, it was a speech that attempted to convey commitment but provided little detail, and which raised more questions than it answered.

[1](#)2. (SBU) Recognizing the need for strong public support for what are certain to be unpopular measures, the Prime Minister attempted to set a tone of urgency and common purpose, calling for national unity and a "new social deal" to pull Greece out of its current economic problems and debt. Saying the country "must change or sink," Papandreou stated Greece's biggest deficit was the deficit of credibility. He proceeded to outline measures aimed at cutting the deficit, projected to spike at 12.7 percent in 2009, to the goal of under 3 percent in 2013, and re-affirmed his desire to combat corruption, tax evasion, nepotism, and political party clientelism. The PM announced some eighty separate measures designed to combat corruption, streamline government business, reform the tax inspectorate, and give incentives to businesses to invest. These measures include:

- cutting defense spending in 2011 and 2012
- cutting bonuses across the public sector
- cutting social security and government operating expenditures by 10 percent each
- introducing salary caps for public utility managers
- applying taxes of up to 90 percent on private banker bonuses
- closing a third of tourist offices overseas

- eliminating COLA for public servants earning over EUR 2,000 per month
- introducing a capital gains tax
- re-introducing inheritance and property taxes
- a "unified" set of tax brackets to be used for all persons irrespective of sources of income (presently, various categories of income are taxed separately)
- a new finance police to oversee the tax inspectorate
- subjecting all tax officers to detailed financial disclosure statements under penalty of dismissal, if they are found to receive bribes

¶3. (SBU) Public commentators said the Papandreou speech tried to cut a middle course, politically, between those cabinet ministers who demand immediate actions to correct the economy and respond to "pressing" EU advice, and those of a populist bent, who remain eager to support the "underprivileged" while taxing "upper incomes." Papandreou, commentators suggested, appears to have the

"best intentions" in trying to tackle some of Greece's most persistent

problems, like corruption, nepotism, and political party clientelism, yet he offered few concrete ways in how these reforms can be affected. In fact, within hours of the PM's speech, trade unionists were vowing renewed "struggle" to stop the government's "anti-people policies" and preserve and defend existing entitlements threatened by the cuts. While the PM's call on all Greeks to participate in the reforms is commendable, the pro-PASOK daily "Eleftherotypia" said in a lead editorial, what will really count is the government's willingness to actually "govern" and realize its policies -- because "the patriotism of all Greeks, when their pockets are concerned, is a lot less enthusiastic."

¶4. (SBU) Immediate market response was tepid, as Greek credit default swaps and the spread between Greek and German 10-year bonds rose moderately, and the Greek stock exchange was down in early trading. The EU response was also lukewarm. Following the PM's speech, Joaquin Almunia, European Commissioner for Economic and Monetary Affairs, said Greece's 2010 budget and "Mr. Papandreou's statement, are steps in the right direction." But he said Brussels wanted to see "concrete measures that will strengthen fiscal adjustment in 2010 and ensure a fast consolidation of public finances" when Greece sets out its plans for the Stability Program, the EU's review of euro-zone countries' budgets, in early January. "We will continue to monitor the macroeconomic and fiscal situation and the implementation of the measures," he said.

¶5. (SBU) COMMENT. It is clear that through this speech, Papandreou sought to assure his EU partners and the markets of Greece's commitment to return to fiscal health. While public and market reactions have been muted, the common refrain has been that the Prime Minister meant well but missed the mark on concrete and measurable actions that would instill this sense and achieve this goal. It is not clear what the impact of the announced measures will be on the budget in 2010, nor is there a roadmap for how the government will get from a budget deficit of 12.7 percent in 2009 to under 3 percent in 2013. In the end, avoiding specifics that could immediately be seized upon by various interest groups to block implementation may give the GoG more flexibility to achieve its goals. But in the short-term, the question remains as to whether there was enough meat to appease the EU and markets. END COMMENT.
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